

SURREBUTTAL TESTIMONY AND EXHIBITS OF
KELVIN L. MAJOR
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-318-E
IN RE: APPLICATION OF DUKE ENERGY PROGRESS, LLC
FOR ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND
REQUEST FOR AN ACCOUNTING ORDER

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Kelvin L. Major. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the State of South Carolina as an Audit Manager, in the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. ARE YOU THE SAME KELVIN MAJOR WHO PRESENTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I pre-filed direct testimony and eight (8) exhibits with the Public Service Commission of South Carolina (“Commission”) on March 4, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain issues raised in the rebuttal testimonies of Duke Energy Progress, LLC. (“DEP” or “Company”) witnesses Laura Bateman, Renee Metzler, Lesley Quick, and Retha Hunsicker. My surrebuttal will address the Company’s rebuttal testimonies in regards to:

- ORS Adjustment #21 to Annualize Operation and Maintenance (“O&M”) Non-Labor Cost,
- ORS Adjustment #22 to Normalize O&M Labor Expenses,
- ORS Adjustment #25 to Amortize Rate Case Costs,
- ORS Adjustment #28 to Adjust for Credit Card Fees,
- ORS Adjustment #29 to Adjust O&M for Executive Compensation,
- ORS Adjustment #30 to Adjust for Customer Connect Additional Expense and Deferral,
- ORS Adjustment #32 to Synchronize Interest Expense with End of Period Rate Base,
- ORS Adjustment #33 to Adjust 1/8 O&M for Accounting and Pro Forma Adjustments,
- ORS Adjustment #36 to Remove Certain Expenses,
- ORS Adjustment #40 Customer Growth Adjustment, and
- ORS Adjustment #41 to Adjust Revenue, Taxes and Customer Growth for the Proposed Increase.

My surrebuttal testimony also updates ORS adjustment amounts for ORS Adjustment #30 to Adjust for Customer Connect Additional Expense and Deferral, Adjustment #32 to Synchronize Interest Expense with End of Period Rate Base, and Adjustment #39 to Adjust for Nuclear Supplies and Materials.

Q. PLEASE DESCRIBE ORS’S RESPONSE TO THE COMPANY’S REBUTTAL TESTIMONIES IN REGARD TO CERTAIN ADJUSTMENTS.

A. ORS’s responses to the adjustments are as follows:

Adjustment #21 - Annualize O&M non-labor expenses

Company witness Bateman states in her rebuttal testimony that annualizing the impacts of inflation to an end of test period level is based on actual known and measurable inflation metrics. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission requires rate

1 applications to be based on a historic 12-month test period. Traditionally, the Commission
2 allows adjustments to the Test Year to reflect known and measurable changes in the
3 Company's operating experience. Adjustments for "inflation" are not known and
4 measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in which the
5 Commission expressly rejected adjustments for inflation, ORS recommends the Commission
6 reject recovery of these costs, which are based on projections and estimates, as it shifts the
7 risks from the Company to the customers. Customer's rates should not be calculated based
8 on projected costs that may never be incurred by the Company.

9 Adjustment #22 – Normalize O&M Labor Expenses

10 Based on the rebuttal testimony of Company witness Bateman, the Company agrees
11 with ORS's adjustment to update the salary allocator for DEP for wages and salaries and
12 related employee benefit costs to the same date as the O&M labor expense, July 1, 2018.

13 The Company does not agree with ORS's recommendation to remove 50% of the
14 Company's long and short term incentive ("LTI" and "STI") program costs for the reasons
15 discussed by Company witness Metzler. Company witness Metzler's rebuttal testimony
16 primarily addresses the Company's position in regards to overall compensation philosophy,
17 the compensation programs provided by DEP, why a competitive compensation package is
18 important, and how eliminating any portion of incentive compensation would decrease
19 employees' total compensation to less than competitive levels.

20 Company witness Metzler's rebuttal testimony discusses earnings per share ("EPS")
21 and also mentions Total Shareholder Return ("TSR"). A general definition of TSR is the
22 total return of a stock to an investor, or the capital gain plus dividends. Both EPS and TSR
23 are metrics that involve the performance of a Company's stock. Company witness Metzler's

1 rebuttal testimony includes Table 1: Summary 2017 STI Plan. This table indicates the
2 Executive Leadership Team's ("ELT") STI payouts are based on 50% EPS and all remaining
3 Non-ELT employees' STI payouts are based on 30% EPS.

4 Company witness Metzler's rebuttal testimony fails to include the components of the
5 Company's LTI plan where 70% of LTI awards are based 50% on EPS and 25% on TSR,
6 for a total 52.5% of the LTI payouts directly tied to the Company's stock performance. In
7 addition, 30% of the Company's LTI plan payouts are for Restricted Stock Units which are
8 retention payouts of Company stock that are not tied to any performance related metrics.
9 ORS determined that an average adjustment of 50% to total LTI and STI payouts was
10 reasonable and appropriate in this docket. An adjustment of 50% to total LTI and STI plan
11 payouts equitably allocates the costs between customers and shareholders. If employees are
12 largely driven by stock performance rather than the service to customers, a balanced
13 approach to equitably share those costs is important. ORS's recommendation does not
14 require DEP to reduce the total compensation package provided to their employees, only that
15 the costs of the LTI and STI plans be shared equally between customers and shareholders.

16 An increase in the Company's EPS and TSR, due to an increase in the Company's
17 rates through a rate case, with no actual improved Company efficiency or operating
18 performance, substantially influences the LTI and STI payouts made to employees. This
19 removes the incentive for employees to achieve earnings goals through performance,
20 customer satisfaction, efficiencies, and cost reduction measures. Shareholders are the
21 primary benefactors of increased EPS and TSR, of which these incentives are directly based.
22 It also shifts the risks from the Company to the customer if the Company is allowed recovery
23 of 100% of its LTI and STI payouts.

1 In addition, the Commission has the authority to regulate the Company's
2 management practices and decisions in regard to prudence but does not regulate the
3 Company's management of EPS or TSR. Allowing regulated utilities the recovery of
4 employee incentives based on stock performance, EPS or TSR, would limit the
5 Commission's ability to determine the prudence of those incentives. The Company's request
6 to allow cost recovery of employee incentives based on stock performance, EPS or TSR,
7 would also be a vast departure from this Commission's previous decisions on this issue. In
8 Order No. 2012-951, the Commission found that incentive compensation is an accepted and
9 necessary component of a utility company's compensation package and that there are sound
10 reasons for offering incentive compensation as part of a competitively reasonable
11 compensation package. In that order, the Commission also found that recovery of 50% of
12 this incentive compensation expense is just and reasonable.

13 ORS's adjustment to remove 50% of the LTI and STI program incentive costs is
14 reasonable as it is an equitable allocation of the costs between the customers and the
15 Company.

16 Adjustment #25 - Amortize Rate Case Costs

17 In rebuttal testimony, Company witness Bateman opposes ORS's recommendations
18 to exclude a return on the deferred rate case expenses during the deferral period and exclude
19 rate case expenses from rate base. ORS reaffirms its original position to exclude a return on
20 rate case expenses and exclude rate case expenses from rate base as the expenses are related
21 to O&M and are not capital in nature. The Company does not currently have a Commission
22 approved accounting order authorizing a deferral.

1 In addition, Company witness Bateman opposes ORS's recommendation to disallow
2 certain rate case expenses due to the Company's lack of sufficient documentation to support
3 the costs. ORS attempted on several occasions to obtain sufficient documentation from the
4 Company. On December 12, 2018, ORS sent Audit Request #14 to the Company asking the
5 Company to provide a summary listing of rate case expenses, copies of all invoices and proof
6 of payment. *See Confidential Surrebuttal Audit Exhibit KLM-9, page 1.* On December 20,
7 2018, the Company responded to Audit Request #14 by providing a summary excel file, legal
8 invoices excel file, an internal labor excel file, and various invoices for some of the legal
9 expenses. Confidential Surrebuttal Audit Exhibit KLM-9, page 2 shows an example of the
10 excel information provided for amounts billed to DEP without a supporting invoice. On
11 January 3, 2019, ORS issued ORS Audit Request #28 to request copies of legal invoices for
12 the legal expenses that were not supported by the Company, *See Confidential Surrebuttal*
13 *Audit Exhibit KLM-9, page 3.* On January 9, 2019, the Company responded. *See*
14 *Confidential Surrebuttal Audit Exhibit KLM-9, page 4.* On January 14, 2019, ORS issued
15 ORS Audit Request #38 to request the Company provide additional detailed information to
16 include billing rates, billed time, and a description of services. This audit request has been
17 attached as Confidential Surrebuttal Audit Exhibit KLM-9, page 5. On January 21, 2019,
18 the Company submitted an excel workbook including a column with a general description
19 for the legal expenses, and timesheets which lacked any reference to the specific legal action,
20 service performed, or person billed which are shown on Confidential Surrebuttal Audit
21 Exhibit KLM-9, pages 6 and 7.

22 On February 22, 2019, Duke Energy Carolinas, LLC ("DEC") employee Kim H.
23 Smith, along with Company witness Bateman, contacted ORS to discuss the level of detail

1 that was needed to provide sufficient support. The Company provided a small sample that
2 contained some additional information, which they characterized as the best the Company
3 could provide. ORS clarified that proper documentation for cost recovery would include
4 itemized work performed, hourly rates, and a detailed accounting of the time spent for the
5 work performed. This information should be provided to the Company from the vendor to
6 support the expenses the Company is requesting to include as rate case expenses. ORS cannot
7 verify the summary information created by the Company is accurate. Complete information
8 is important to ensure that customers pay for only expenses related to the rate case. ORS
9 recommends the Commission adopt ORS's adjustment to rate case expenses and reject any
10 rate case expenses not properly supported by the Company.

11 Adjustment #28 - Adjust for Credit Card Fees

12 Company witness Quick, in her rebuttal testimony, opposes ORS's recommendation
13 to exclude the Company's growth projections in the calculation of credit card fee expenses.
14 ORS's position for rejecting inflation-based estimates applies to the ORS recommendation
15 the Commission reject the 20% growth projections included by the Company in the
16 calculation of credit card fees. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission
17 requires rate applications to be based on a historic 12-month test period. Traditionally, the
18 Commission allows adjustments to the Test Year to reflect known and measurable changes
19 in the Company's operating experience. Adjustments for growth projections are not known
20 and measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in which the
21 Commission expressly rejected adjustments for inflation, ORS recommends the Commission
22 reject recovery of these costs, which are based on projections and estimates, as it shifts the

1 risks from the Company to the customers. Customer's rates should not be calculated based
2 on projected costs that may never be incurred by the Company.

3 Company witness Quick states that the Company experienced an average historic
4 year over year growth rate of 13% in online payment transactions from 2014 to 2017. In
5 addition, to support her findings, she states that the Company reviewed other utilities around
6 the country implementing fee free credit card usage and found that the projected increase in
7 credit card transactions cited by these utilities ranged from 5% to 30%. This further supports
8 ORS's position as to the uncertainty of the Company's proposed growth projection.

9 On page eight of Company witness Quick's rebuttal testimony, she proposes the
10 Commission approve a deferral to include the incremental credit card fees that ORS does not
11 recommend be included in this adjustment. ORS recommends the Commission reject
12 Company witness Quick's request to establish a deferral for the credit card fee expenses
13 should the Commission not include the growth projections, as the credit card fees are not
14 extraordinary in circumstance or magnitude, or in the customer's interest. See ORS witness
15 Payne's surrebuttal testimony for discussion of deferrals.

16 Adjustment #29 - Adjust O&M for Executive Compensation

17 ORS recommends the Commission adopt the ORS adjustment to O&M for executive
18 compensation. The Company's adjustment eliminates 50% of the compensation (base pay,
19 LTI and STI) of the four DEP executives with the highest level of compensation. ORS does
20 not remove 50% of the LTI and STI payments for these four executives in its adjustment
21 since 50% of those payments were already removed in Adjustment #22 by ORS. ORS
22 reaffirms its calculation of this adjustment.

23 Adjustment #30 - Adjust for Customer Connect Additional Expenses and Deferral

1 Upon review of Company witnesses Bateman's and Hunsicker's rebuttal testimony,
2 ORS proposes an additional adjustment to O&M expenses for the Customer Connect Project
3 to reflect the actual incurred level of expenses in 2018 of \$923,000. This results in an
4 adjustment to O&M of \$763,000 as \$160,000 of costs associated with Customer Connect
5 were included in the test year expenses. Inclusion of this adjustment results in an additional
6 adjustment to income taxes of (\$190,000) for a total adjustment to income taxes of
7 (\$267,000) associated with Customer Connect.

8 ORS recommends the Commission reject Company witness Hunsicker's forecasted
9 average O&M expense of \$1.4 million. This amount includes forecasted costs of \$550,000
10 for inflation and contingency. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission
11 requires rate applications to be based on a historic 12-month test period. Traditionally, the
12 Commission allows adjustments to the Test Year to reflect known and measurable changes
13 in the Company's operating experience. Adjustments for inflation and contingencies are not
14 known and measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in
15 which the Commission expressly rejected adjustments for inflation, ORS recommends the
16 Commission reject recovery of these costs, which are based on projections and estimates, as
17 it shifts the risks from the Company to the customers. Customer's rates should not be
18 calculated based on projected costs that may never be incurred by the Company.

19 Due to ORS's additional adjustment, ORS recommends cancellation of the
20 accounting order (Order No. 2018-553) for deferred expenses related to Customer Connect
21 on the date of the order issued by the Commission in this docket.

22 Adjustment #36 – Remove Certain Expenses

1 ORS recommended an adjustment to other O&M expense of (\$875,000) and
2 income taxes of \$218,000 to disallow sponsorships, lobbying expenses, service awards,
3 advertising and other miscellaneous items. These items are non-allowable and not
4 necessary to provide electric service to customers. Subsequent to filing the application, the
5 Company proposed an adjustment to other O&M expense of (\$97,000) and income taxes of
6 \$24,000 to remove lobbying costs and image building advertising.

7 Based on the rebuttal testimonies of Company witnesses Bateman and Metzler, the
8 Company disagrees with ORS removing items associated with employee incentives, any
9 costs to recognize and reward Company employees, lineman's rodeo costs, organization
10 dues, costs that are not related to South Carolina ("SC"), timing differences and litigation
11 expenses as part of its non-allowable adjustment.

12 ORS performed its non-allowable review of the Company's accounting records over
13 a three (3) month period, concluded its initial review, and sent its list of non-allowable
14 transactions to the Company on January 28, 2019. ORS requested the Company provide
15 additional supporting documentation and detailed reasoning for why expenses should be
16 allowed and included for recovery from customers. On February 11, 2019, ORS contacted
17 the Company to inquire if the Company's response was forthcoming related to the
18 transactions deemed non-allowable by ORS. On that same day, ORS received a response
19 from the Company which indicated the Company reviewed the ORS spreadsheet containing
20 the list of non-allowables. The Company's response identified certain transactions the
21 Company intended to remove in the updated supplemental filing which included a new pro
22 forma adjustment called "Remove Certain Expenses." The Company's response also
23 identified instances where ORS duplicated removal of the same transaction and instances

1 where ORS recommended removing North Carolina (“NC”) specific costs, like Department
2 of Motor Vehicle (“DMV”) costs, which were allocated between NC and SC. The Company
3 indicated ORS’s adjustment to non-allowables did not identify the comparable SC specific
4 costs that were also allocated between NC and SC.

5 The Company indicated in its response all remaining transactions identified by ORS
6 in the spreadsheet were reasonable expenses attributed to: prudent utility operations;
7 community engagement; and maintenance of an engaged workforce. ORS requested the
8 Company identify all transactions that were removed more than once, and on February 22,
9 2019, ORS received the Company’s response. ORS modified its non-allowable adjustment
10 to remove duplicate items. The Company provided no additional supporting documentation
11 for specific non-allowable transactions.

12 Company witness Metzler, in her rebuttal testimony, specifically addresses ORS’s
13 non-allowable adjustment in regard to spot bonuses (exceptional contribution awards), lump
14 sum merit payments, service awards, safety awards, lineman’s rodeo, and miscellaneous
15 costs to recognize and reward the Company’s employees such as: a team lunch, decorations
16 for an office celebration, and coffee supplies in the office. ORS recommended an adjustment
17 to remove amounts associated with spot bonuses, service awards and safety awards, team
18 lunch, coffee supplies in the office, and decorations for an office celebration consistent with
19 Commission Order Nos. 89-573, 91-595, and 94-1229. In these Commission Orders, the
20 Commission removed costs associated with sales incentive awards, safety and length of
21 service awards, other miscellaneous gifts and awards, and parties. ORS removed costs
22 associated with the lineman’s rodeo as costs associated with competitions between linemen
23 from various utilities are not necessary to provide quality electric utility service to customers.

DEP's customers should not have to pay costs not associated with providing quality electric utility service. ORS's treatment of rodeo related expenses in this docket is consistent with ORS's treatment of rodeo related expenses in other SC gas and electric utility rate cases and Rate Stabilization Act filings. The Company is incorrect in its statement that ORS's non-allowable adjustment removed amounts associated with lump sum merit payments made by the Company.

Company witness Bateman, in her rebuttal testimony, specifically addresses organization dues, costs that are not related to SC, timing differences due to accrual accounting, and litigation expenses. Company witness Bateman specifically identifies the Company's request to recover from its customers membership dues for local Chambers of Commerce, the Historic Marion Revitalization Association, and the Darlington Downtown Revitalization Association. ORS removed 50% of the dues associated with Chambers of Commerce as part of its non-allowable adjustment consistent with Commission Order Nos. 94-1229, 01-887, and 02-285 where the Commission found that one-half of dues paid to state and local Chambers of Commerce should be included in cost of service. In regards to the transactions associated with the Historic Marion Revitalization Association and the Darlington Downtown Revitalization Association, ORS removed amounts associated with these transactions based on the Company's designation of them as being related to "Memberships in Social and Athletic Clubs (including but not limited to Chamber of Commerce, Rotary, Lions, etc.)." Removal of costs for transactions associated with memberships in social and athletic clubs is consistent with Commission Order Nos. 91-595 and 94-1229.

1 The Company asserts that ORS included in its adjustment for non-allowables
2 transactions related to costs that are not related to SC and timing differences for accrual
3 accounting. ORS provided the Company ample opportunity to identify and provide
4 additional supporting documentation for any transactions for which they did not agree with
5 ORS's treatment as non-allowable. The Company failed to specifically identify transactions
6 included in ORS's non-allowable adjustment related to these items during the non-allowable
7 review process. In fact, despite ORS's request for information from the Company, ORS did
8 not become aware of the Company's treatment of DMV registration fees for transmission
9 vehicles until reading DEC employee Kim H. Smith's rebuttal testimony in Docket No.
10 2018-319-E. The same is also true for transactions included in ORS's non-allowable
11 adjustment related to expenses incurred and accrued in a previous period but not paid until
12 the test year. Had the Company properly supported these transactions with the explanations
13 in Company witness Bateman's testimony when ORS originally asked for support, ORS
14 would have had the opportunity to closely review and verify these transactions, determine
15 the appropriate treatment, and modify its non-allowable adjustment appropriately. As a
16 result of the Company's actions, ORS has not verified Company's witness Bateman's claims
17 and ORS recommends the Commission reject the Company's position.

18 ORS's removal of litigation expenses as part of its non-allowable adjustment is
19 discussed in detail by ORS witness Hamm's surrebuttal testimony.

20 Adjustments #33 - Adjust for 1/8 O&M for Accounting and Pro Forma Adjustments,
21 Adjustment #40 - Customer Growth, and Adjustment #41 - Adjust Revenue, Taxes and
22 Customer Growth for the Proposed Increase

ORS and the Company agree on the methodology used in calculating these adjustments. ORS and Company amounts differ due to the underlying adjustments of ORS and the Company and the recommended return on equity.

Q. DID ORS UPDATE ANY OTHER ADJUSTMENTS AS PART OF SURREBUTTAL TESTIMONY?

A. Yes. ORS updated ORS Adjustment #32 to Synchronize Interest Expense with End of Period Rate Base due to an increase in the weighted average cost of debt rate to 4.16% from 4.06% as accepted by ORS witness Parcell in his surrebuttal testimony. ORS also updated ORS Adjustment #39 to Adjust Nuclear Materials and Supplies based on the recommendation of ORS witness Morgan in his surrebuttal testimony.

Q. PLEASE IDENTIFY ADDITIONAL EXHIBITS ATTACHED TO YOUR SURREBUTTAL TESTIMONY.

A. I have attached the following exhibits to my surrebuttal testimony to reflect the update to ORS Adjustment #30 for the Customer Connect Project, the increase in the weighted average cost of debt rate to 4.16% from 4.06%, the update to Adjustment #39 for Nuclear Materials and Supplies, and the resulting changes to fall out adjustments:

- Surrebuttal Audit Exhibit KLM-1: Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
- Surrebuttal Audit Exhibit KLM-2: Explanation of Accounting and Pro Forma Adjustments - Retail
- Surrebuttal Audit Exhibit KLM-3: Electric Plant in Service at Original Cost
- Surrebuttal Audit Exhibit KLM-4: Accumulated Depreciation and Amortization – Electric Plant in Service

- Surrebuttal Audit Exhibit KLM-5: Materials and Supplies
- Surrebuttal Audit Exhibit KLM-6: Working Capital Investment
- Surrebuttal Audit Exhibit KLM-7: Weighted Cost of Capital
- Surrebuttal Audit Exhibit KLM-8: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
- Confidential Surrebuttal Audit Exhibit KLM-9: Company responses to ORS Audit Request #14, #28, and #38

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental surrebuttal testimony should new information not previously provided by the Company, or other sources, become available

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Duke Energy Progress, LLC
Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
Total and Retail Electric
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E

		TOTAL ELECTRIC - NC & SC		(000's Omitted)			
		(1)	(2)	(3)	(4)	(5)	(6)
Line No.	Description	Total Company Per Books	SC Retail Per Books	ORS Accounting & Pro Forma Adjustments	After ORS Accounting & Pro Forma Adjustments	ORS Proposed Increase	After Proposed Increase
1	<u>Operating Revenues</u>	\$ 5,125,685	\$ 562,188	\$ (1,453)	\$ 560,735	\$ 32,130	\$ 592,865
2	<u>Operating Expenses:</u>						
3	Fuel Used in Electric Generation	\$ 1,258,015	\$ 125,387	\$ 15,903	\$ 141,290	\$ 0	\$ 141,290
4	Purch. Pwr. & Net Interch. (Non-Fuel)	351,214	52,856	0	52,856	0	52,856
5	Other O&M Expense	1,355,516	145,738	(9,027)	136,711	0	(S) 136,711
6	Depreciation & Amortization	762,731	75,968	45,325	121,293	0	121,293
7	General Taxes	153,535	20,970	1,896	22,866	142	(T) 23,008
8	Interest on Customer Deposits	9,367	654	0	654	0	654
9	Income Taxes	336,771	35,368	(27,743)	7,625	7,981	(U) 15,606
10	Amort. of Investment Tax Credit	(3,380)	(338)	0	(338)	0	(338)
11	<u>Total Operating Expenses</u>	\$ 4,223,769	\$ 456,603	\$ 26,354	\$ 482,957	\$ 8,123	\$ 491,080
12	<u>Operating Income</u>	901,916	105,585	(27,807)	77,778	24,007	101,785
13	<u>Customer Growth</u>	0	0	21	21	6	(V) 27
14	<u>Net Operating Income for Return</u>	\$ 901,916	\$ 105,585	\$ (27,786)	\$ 77,799	\$ 24,013	\$ 101,812
15	<u>Rate Base:</u>						
16	Gross Plant in Service	\$ 26,183,538	\$ 2,691,449	\$ 110,390	\$ 2,801,839	\$ 0	\$ 2,801,839
17	Accum. Depr. & Amort.	(11,299,853)	(1,177,920)	(3,020)	(1,180,940)	0	(1,180,940)
18	Net Plant in Service	14,883,685	1,513,529	107,370	1,620,899	0	1,620,899
19	Materials & Supplies	1,126,375	104,777	(2,850)	101,927	0	101,927
20	Working Capital Investment	(418,232)	(11,372)	(46,673)	(58,045)	0	(58,045)
21	Plant Held for Future Use	46,711	4,802	0	4,802	0	4,802
22	Accumulated Deferred Taxes	(1,909,741)	(212,652)	32,628	(180,024)	0	(180,024)
23	Operating Reserves	(103,988)	(10,627)	0	(10,627)	0	(10,627)
24	Customer Deposits	0	0	0	0	0	0
25	Construction Work In Progress	0	0	0	0	0	0
26	<u>Total Rate Base</u>	\$ 13,624,810	\$ 1,388,457	\$ 90,475	\$ 1,478,932	\$ 0	\$ 1,478,932
27	<u>Rate of Return</u>	6.62%	7.60%		5.26%		6.88%
28	<u>Return on Common Equity</u>		10.75%		6.24%		9.30%

Duke Energy Progress, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Plant Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Annualize Retail revenues for current rates																	
	Per ORS	590			1		2	147										
	Per Company	590			1		2	147										
2	Update fuel costs to approved rate and other fuel related adjustments																	
	Per ORS	397	15,903					(3,869)						(7,041)		1,631		
	Per Company	397	15,903					(3,869)						(7,041)		1,631		
3	Adjust Other Revenue																	
	Per ORS	68			0		0	17										
	Per Company	68			0		0	17										
4	OPEN																	
	Per ORS																	
	Per Company																	
5	Eliminate unbilled revenues																	
	Per ORS	(2,508)					(8)	(624)										
	Per Company	(2,508)					(8)	(624)										
6	Adjust for costs recovered through non-fuel riders (Not in Binder)																	
	Per ORS				(16,361)	(6,161)	(603)	5,770			(25,846)	8,827		(27,929)		10,062		
	Per Company				(16,361)	(6,161)	(603)	5,770			(25,846)	8,827		(27,929)		10,062		
7	OPEN																	
	Per ORS																	
	Per Company																	
8	Annualize depreciation on year end plant balances																	
	Per ORS					2,777		(693)				(2,777)						
	Per Company					2,801		(699)				(2,801)						
9	Annualize property taxes on year end plant balances																	
	Per ORS						376	(94)										
	Per Company						376	(94)										
10	Adjust for new depreciation rates																	
	Per ORS					9,386		(2,341)				(6,691)		5,390		(1,345)		
	Per Company					9,386		(2,341)				(6,691)		5,390		(1,345)		

Duke Energy Progress, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Plant Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
11	Adjust for post test year additions to plant in service																	
	Per ORS					5,323	1,063	(1,593)			169,635	(5,323)						
	Per Company					5,327	1,079	(1,598)			176,506	(5,327)						
12	Remove NCEMPA Acquisition Adjustment																	
	Per ORS					(1,218)		304			(33,399)	2,944						
	Per Company					(1,218)		304			(33,399)	2,944						
13	Remove expiring amortization credits from test year																	
	Per ORS					30,869		(7,702)										
	Per Company					30,869		(7,702)										
14	OPEN																	
	Per ORS																	
	Per Company																	
15	Adjust reserve for end of life nuclear costs																	
	Per ORS					0		0						0		0		
	Per Company					2,938		(733)						(2,938)		733		
16	Adjust coal inventory																	
	Per ORS												(2,251)			(2,251)		
	Per Company												(2,251)			(2,251)		
17	Adjust for previously deferred amounts - Harris COLA, GridSouth, Fukushima/Cybersecurity, 2014 Storms																	
	Per ORS					2,634		(657)						(23,118)		5,768		
	Per Company					3,184		(794)						(15,754)		3,931		
18	Amortize deferred environmental costs																	
	Per ORS					879		(219)						3,288		(820)		
	Per Company					10,080		(2,515)						40,322		(10,060)		
19	Amortize deferred cost balance related to SC AMI																	
	Per ORS					104		(26)						861		(215)		
	Per Company					468		(117)						935		(233)		
20	Normalize for storm costs																	
	Per ORS							(180)										
	Per Company							(251)										

Duke Energy Progress, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Plant Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
21	Annualize O&M non-labor expenses Per ORS Per Company				0 508			0 (127)										
22	Normalize O&M labor expenses Per ORS Per Company				(802) 3,059		199 180	150 (808)										
23	Update benefits costs Per ORS Per Company				2,939 3,366			(733) (840)										
24	Levelize nuclear refueling outage costs Per ORS Per Company				4,256 4,256			(1,062) (1,062)										
25	Amortize rate case costs Per ORS Per Company				137 770			(34) (192)						0 3,082		0 (769)		
26	Adjust aviation expenses Per ORS Per Company				(249) (249)		(2) (2)	63 63										
27	OPEN Per ORS Per Company																	
28	Adjust for credit card fees Per ORS Per Company				644 773			(161) (193)										
29	Adjust O&M for executive compensation Per ORS Per Company				(43) (304)			11 76										
30	Adjust for Customer Connect Project Per ORS Per Company				763 1,227	308 515		(267) (435)						0 1,029		0 (257)		
31	Adjust vegetation management expenses Per ORS Per Company				(160) 307			40 (77)										

Duke Energy Progress, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Plant Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
32	Synchronize interest expense with end of period rate base Adjustment Per ORS Per Company							(14) (51)										
33	Adjust 1/8 O&M for accounting and pro forma adjustments Adjustment Per ORS Per Company							0 0						860 1,782				
34	Adjust for tax rate change Adjustment Per ORS Per Company							(13,871) (13,871)								17,800 17,800		
35	Adjust deferred cost balance related to SC Grid Adjustment Per ORS Per Company					424 1,164		(106) (291)						1,016 1,164		(253) (291)		
36	Remove Certain Expenses Adjustment Per ORS Per Company				(875) 0			218 0										
37	Adjust for Allocation of PUC License Tax Expense Adjustment Per ORS Per Company						869 0	(217) 0										
38	Adjust for Ongoing Payment Obligation Adjustment Per ORS Per Company							0 830										
39	Adjust for Nuclear Supplies and Materials Adjustment Per ORS Per Company												(599) 0					

Duke Energy Progress, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Plant Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
40	Adjust for Customer Growth Adjustment Per ORS Per Company																	
										21								
										17								

<u>Total Adjustments Per ORS</u>		(1,453)	15,903	0	(9,027)	45,325	1,896	(27,743)	0	21	110,390	(3,020)	(2,850)	(46,673)	0	32,628	0	0
<u>Total Adjustments Per Company</u>		(1,453)	15,903	0	(812)	59,353	1,024	(33,114)	0	17	117,261	(3,048)	(2,251)	42	0	21,202	0	0
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)

Proposed Increase

41	Adjust Revenue, Taxes, & Customer Growth Per ORS Per Company	32,130 68,668			0 0	142 304	7,981 17,057	6 14										
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<u>Total Adjustments Per ORS</u>		32,130	0	0	0	0	142	7,981	0	6	0	0	0	0	0	0	0	0
<u>Total Adjustments Per Company</u>		68,668	0	0	0	0	304	17,057	0	14	0	0	0	0	0	0	0	0
		(R)			(S)		(T)	(U)		(V)								

Surrebuttal Audit Exhibit KLM-3

Duke Energy Progress, LLC
Electric Plant in Service at Original Cost
Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Description	Total Electric Total Company Per Books	South Carolina Retail		
		Per Books	Accounting Adjustments	As Adjusted
Production	\$ 15,837,016	\$ 1,515,298	\$ 64,359	\$ 1,579,657
Transmission	2,601,062	242,011	17,453	259,464
Distribution	6,236,202	774,976	23,058	798,034
General	654,815	71,373	6,376	77,749
Intangible Plant	498,613	51,254	(856)	50,398
Subtotal	\$ 25,827,708	\$ 2,654,912	\$ 110,390	\$ 2,765,302
Nuclear Fuel	355,830	36,537	0	36,537
Total Electric Plant in Service	\$ 26,183,538	\$ 2,691,449	\$ 110,390	\$ 2,801,839

Surrebuttal Audit Exhibit KLM-4

Duke Energy Progress, LLC
Accumulated Depreciation and Amortization - Electric Plant in Service
Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

Description	Total Electric Total Company Per Books	South Carolina Retail		
		Per Books	Accounting Adjustments	As Adjusted
Production	\$ (6,964,031)	\$ (673,642)	\$ (15,413)	\$ (689,055)
Transmission	(798,253)	(74,529)	(838)	(75,367)
Distribution	(3,005,978)	(373,555)	11,204	(362,351)
General	(249,802)	(27,228)	(1,090)	(28,318)
Intangible Plant	<u>(281,789)</u>	<u>(28,966)</u>	<u>3,117</u>	<u>(25,849)</u>
Subtotal	\$ (11,299,853)	\$ (1,177,920)	\$ (3,020)	\$ (1,180,940)
Nuclear Fuel	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u><u>(11,299,853)</u></u>	\$ <u><u>(1,177,920)</u></u>	\$ <u><u>(3,020)</u></u>	\$ <u><u>(1,180,940)</u></u>

Surrebuttal Audit Exhibit KLM-5

Duke Energy Progress, LLC
Materials and Supplies
Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

<u>Description</u>	<u>Total Electric</u>	<u>South Carolina Retail</u>		
	<u>Total Company Per Books</u>	<u>Per Books</u>	<u>Accounting Adjustments</u>	<u>As Adjusted</u>
<u>Fuel Stock:</u>				
Coal	\$ 242,761	\$ 24,927	\$ (2,251)	\$ 22,676
Oil	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Total Fuel Stock</u>	\$ 242,761	\$ 24,927	\$ (2,251)	\$ 22,676
Other Electric Materials and Supplies and Stores Clearing	<u>883,614</u>	<u>79,850</u>	<u>(599)</u>	<u>79,251</u>
<u>Total Materials and Supplies</u>	\$ <u><u>1,126,375</u></u>	\$ <u><u>104,777</u></u>	\$ <u><u>(2,850)</u></u>	\$ <u><u>101,927</u></u>

Surrebuttal Audit Exhibit KLM-6

Duke Energy Progress, LLC
Working Capital Investment
Test Year Ended December 31, 2017
Docket No. 2018-318-E
(000's Omitted)

<u>Description</u>	<u>Total Electric</u>	<u>South Carolina Retail</u>		
	<u>Total Company Per Books</u>	<u>Per Books</u>	<u>Accounting Adjustments</u>	<u>As Adjusted</u>
12 Mths O&M (Excl PP & Nuclear Fuel)	\$ 2,385,539	\$ 242,529	\$ 6,876	\$ 249,405
1/8 of O&M Expenses	298,192	30,316	860	31,176
Less: Average Taxes Accrued	<u>(3,472)</u>	<u>(353)</u>	<u>0</u>	<u>(353)</u>
<u>Subtotal: Investor Funds for Operations</u>	\$ 294,720	\$ 29,963	\$ 860	\$ 30,823
Required Bank Balance	0	0	0	0
Unamortized Debt Expense	47,999	4,880	0	4,880
Prepayments	72,816	7,403	0	7,403
Customer Deposits	(129,255)	(19,816)	0	(19,816)
Miscellaneous Deferred Debits and Credits	<u>(704,512)</u>	<u>(33,802)</u>	<u>(47,533)</u>	<u>(81,335)</u>
<u>Subtotal: Other Investor Funds</u>	\$ (712,952)	\$ (41,335)	\$ (47,533)	\$ (88,868)
<u>Total Working Capital Investment</u>	\$ <u>(418,232)</u>	\$ <u>(11,372)</u>	\$ <u>(46,673)</u>	\$ <u>(58,045)</u>

Duke Energy Progress, LLC
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
Total and Retail Electric
For the Test Year Ended December 31, 2017
Docket No. 2018-318-E

		TOTAL ELECTRIC - NC & SC		(000's Omitted)				SOUTH CAROLINA RETAIL	
		(1)	(2)	(3)	(4)	(5)	(6)		
Line No.	Description	Total Company Per Books	SC Retail Per Books	ORS Accounting & Pro Forma Adjustments	After ORS Accounting & Pro Forma Adjustments	Company Proposed Increase	After Proposed Increase		
1	<u>Operating Revenues</u>	\$ 5,125,685	\$ 562,188	\$ (1,453)	\$ 560,735	\$ 68,668	\$ 629,403		
2	<u>Operating Expenses:</u>								
3	Fuel Used in Electric Generation	\$ 1,258,015	\$ 125,387	\$ 15,903	\$ 141,290	\$ 0	\$ 141,290		
4	Purch. Pwr. & Net Interch. (Non-Fuel)	351,214	52,856	0	52,856	0	52,856		
5	Other O&M Expense	1,355,516	145,738	(9,027)	136,711	0	136,711		
6	Depreciation & Amortization	762,731	75,968	45,325	121,293	0	121,293		
7	General Taxes	153,535	20,970	1,896	22,866	304	23,170		
8	Interest on Customer Deposits	9,367	654	0	654	0	654		
9	Income Taxes	336,771	35,368	(27,743)	7,625	17,057	24,682		
10	Amort. of Investment Tax Credit	(3,380)	(338)	0	(338)	0	(338)		
11	<u>Total Operating Expenses</u>	\$ 4,223,769	\$ 456,603	\$ 26,354	\$ 482,957	\$ 17,361	\$ 500,318		
12	<u>Operating Income</u>	901,916	105,585	(27,807)	77,778	51,307	129,085		
13	<u>Customer Growth</u>	0	0	21	21	14	35		
14	<u>Net Operating Income for Return</u>	\$ 901,916	\$ 105,585	\$ (27,786)	\$ 77,799	\$ 51,321	\$ 129,120		
15	<u>Rate Base:</u>								
16	Gross Plant in Service	\$ 26,183,538	\$ 2,691,449	\$ 110,390	\$ 2,801,839	\$ 0	\$ 2,801,839		
17	Accum. Depr. & Amort.	(11,299,853)	(1,177,920)	(3,020)	(1,180,940)	0	(1,180,940)		
18	Net Plant in Service	14,883,685	1,513,529	107,370	1,620,899	0	1,620,899		
19	Materials & Supplies	1,126,375	104,777	(2,850)	101,927	0	101,927		
20	Working Capital Investment	(418,232)	(11,372)	(46,673)	(58,045)	0	(58,045)		
21	Plant Held for Future Use	46,711	4,802	0	4,802	0	4,802		
22	Accumulated Deferred Taxes	(1,909,741)	(212,652)	32,628	(180,024)	0	(180,024)		
23	Operating Reserves	(103,988)	(10,627)	0	(10,627)	0	(10,627)		
24	Customer Deposits	0	0	0	0	0	0		
25	Construction Work In Progress	0	0	0	0	0	0		
26	<u>Total Rate Base</u>	\$ 13,624,810	\$ 1,388,457	\$ 90,475	\$ 1,478,932	\$ 0	\$ 1,478,932		
27	<u>Rate of Return</u>	6.62%	7.60%		5.26%		8.73%		
28	<u>Return on Common Equity</u>		10.75%		6.24%		12.78%		

EXHIBIT 9 TO
SURREBUTTAL TESTIMONY
OF
KELVIN L. MAJOR

CONFIDENTIAL

FILED UNDER SEAL
WITH COMMISSION
2018-318-E

Application of Duke Energy Progress, LLC
for Adjustments in Electric Rate Schedules
and Tariffs and Request for an Accounting Order